BANFF OIL LTD. annual report 1968

HEAD OFFICE	550 SIXTH AVENUE S.W.	*Calgary, Alberta*
COUNSEL	SAUCIER, JONES, PEACOCK, BLACK, GAIN, STRATTON AND LAYCRAFT . . .	*Calgary, Alberta*
	SIMPSON, THACHER AND BARTLETT . .	*New York, N.Y.*
AUDITORS	PRICE WATERHOUSE & CO.	*Calgary, Alberta*
TRANSFER AGENTS	MONTREAL TRUST COMPANY	*Calgary, Alberta* *Toronto, Ontario*
	MORGAN GUARANTY TRUST COMPANY OF NEW YORK	*New York, N.Y.*
REGISTRARS	MONTREAL TRUST COMPANY	*Calgary, Alberta* *Toronto, Ontario*
	THE BANK OF NEW YORK	*New York, N.Y.*
STOCK EXCHANGE LISTINGS	TORONTO STOCK EXCHANGE	*Toronto, Ontario*
	AMERICAN STOCK EXCHANGE	*New York, N.Y.*

Banff OIL LTD.

THE YEAR IN BRIEF

		1968	1967	% Change
FINANCIAL	Sales	$ 2,940,038	$ 2,306,329	+27
	Cash income	1,611,542	1,115,244	+45
	Per share	31.4¢	24.4¢	+29
	Net income	1,049,908	731,588	+44
	Per share	20.4¢	16.0¢	+28
	Capital expenditures	3,127,670	3,688,114	−15
PRODUCTION	Oil (bbls.)	603,218	528,705	+14
	Natural gas (mmcf.)	3,595	2,460	+46
	Natural gas liquids (bbls.)	103,641	99,388	+ 4
	Sulphur (long tons)	16,158	13,923	+16
RESERVES	Oil (bbls.)	29,154,721	27,585,903	+ 6
	Natural gas (mmcf.)	120,527	118,533	+ 2
	Natural gas liquids (bbls.)	4,276,725	4,386,836	− 3
	Sulphur (long tons)	511,580	505,775	+ 1
LAND	Reservations and Permits			
	Gross acres	10,388,766	5,907,077	+76
	Net acres	2,289,601	1,058,402	+116
	Leases			
	Gross acres	1,168,837	1,129,547	+ 3
	Net acres	193,597	256,157	−24
WELLS DRILLED	Gross	40.0	47.0	−15
	Net	3.6	4.0	−10

Incorporated under the laws of the Province of Alberta

EIGHTEENTH ANNUAL REPORT 1968

BOARD OF DIRECTORS

GEORGE CRETZIANU . . . . *Montreal, Quebec*
Associate, Greenshields Incorporated (Investment Dealers)

HAROLD W. MANLEY . . . . *Tulsa, Oklahoma*
Director, Jefferson Lake Petrochemicals of Canada Ltd., Petroleum, Natural Gas, and Sulphur Consultant

LAURENT MICHEL . . . . *New York, N.Y.*
Vice President, Paribas Corporation (Investment Bankers)

JACQUES PAYAN . . . . *Pau, France*
Assistant to the Foreign Exploration Manager, Societe Nationale des Petroles d'Aquitaine

*LOUIS PRADAL . . . . *Calgary, Alberta*
Executive Vice President and General Manager, Aquitaine Company of Canada Ltd.

*JOHN C. RUDOLPH . . . . *Calgary, Alberta*
President, Banff Oil Ltd.

DONALD K. RUSSELL . . . . *New York, N.Y.*
Associate, Lehman Brothers (Investment Bankers)

*GILBERT RUTMAN . . . . *Pau, France*
Vice President of Exploration and Production, Societe Nationale des Petroles d'Aquitaine and President, Aquitaine Company of Canada Ltd.

*RONALD J. WHITE . . . . *Calgary, Alberta*
Vice President, Banff Oil Ltd.

*Member of the Executive Committee of the Board of Directors

OFFICERS AND KEY PERSONNEL

JOHN C. RUDOLPH . . . . *President*
RONALD J. WHITE . . . . *Vice President*
RONALD C. DOWELL . . . . *Secretary*
WILLIAM J. MACINTOSH . . . . *Treasurer*
BRUNO J. TODESCO . . . . *General Counsel*

REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS OF BANFF OIL LTD.

The eighteenth annual report for the year ended December 31, 1968 is presented herewith.

Cash income, net income, production and sales were all up substantially again in 1968. Reserves of oil, gas and sulphur also increased but gas liquids were down slightly. Production expense was up in gross but again declined on a unit basis resulting in still further improvement in the net return per barrel to the Company. All in all the year produced a very substantial financial gain for the Company.

The year also saw Rainbow exploration and exploitation becoming less important as the Company began a broader exploration program with the emphasis on the acquisition and exploration of large blocks of potentially attractive land. During 1968 Banff acquired an interest in more than 4½ million gross acres. The first of the new areas to reach fruition is Strachan where indicated major gas reserves have generated intense interest by the industry. Here the Company has agreed to enter into a sales agreement to sell the gas reserves so far established to Northern Natural Gas Company at a very attractive price plus a substantial interest-free prepayment. Banff will concentrate much of its 1969 effort at Strachan where an intensive seismic effort is now in progress. This should be followed by more exploratory and development drilling and detailed planning for a gas processing plant to be built within the near future.

At Rainbow, as development matures, more risky prospects are being explored so that drilling results have fallen off. Rainbow production, however, will be enhanced as a result of the Conservation Board's approval of the Company's sequential depletion proposal. As one of the few major sources of Alberta crude with shut-in capacity available during peak demand periods, Rainbow will continue to be Banff's major source of income for some time.

During the year the Company carried out extensive culling of its properties, both producing and non-producing. Many leases were dropped and many of the older producing properties which had reached the questionably economic stage were sold. This resulted in the closing of two field offices and a consolidation of staff.

The Company expects to concentrate its future efforts on looking for gas primarily in western and northwestern Alberta and northeast British Columbia and on general exploration in the southern Northwest Territories. The Company holds a 25% interest in a large block of offshore land in the Arctic Islands and will begin its exploration in the summer of 1969. In Saskatchewan the multi-well Pheasant drilling program designed as a broad test of the Winnipegosis reefs has been disappointing and Banff does not expect to be active in this play in the future.

As a result of a rights offering, the Company issued 761,537 common shares during the year. In spite of this financing, cash income and net income per share both increased substantially. It is expected that additional equity capital will be raised during 1969 in sufficient amount to enable the Company to carry a much higher participation in new exploration prospects than has been possible in the past. Thus any new discoveries made on these lands should be of greater significance to the Company.

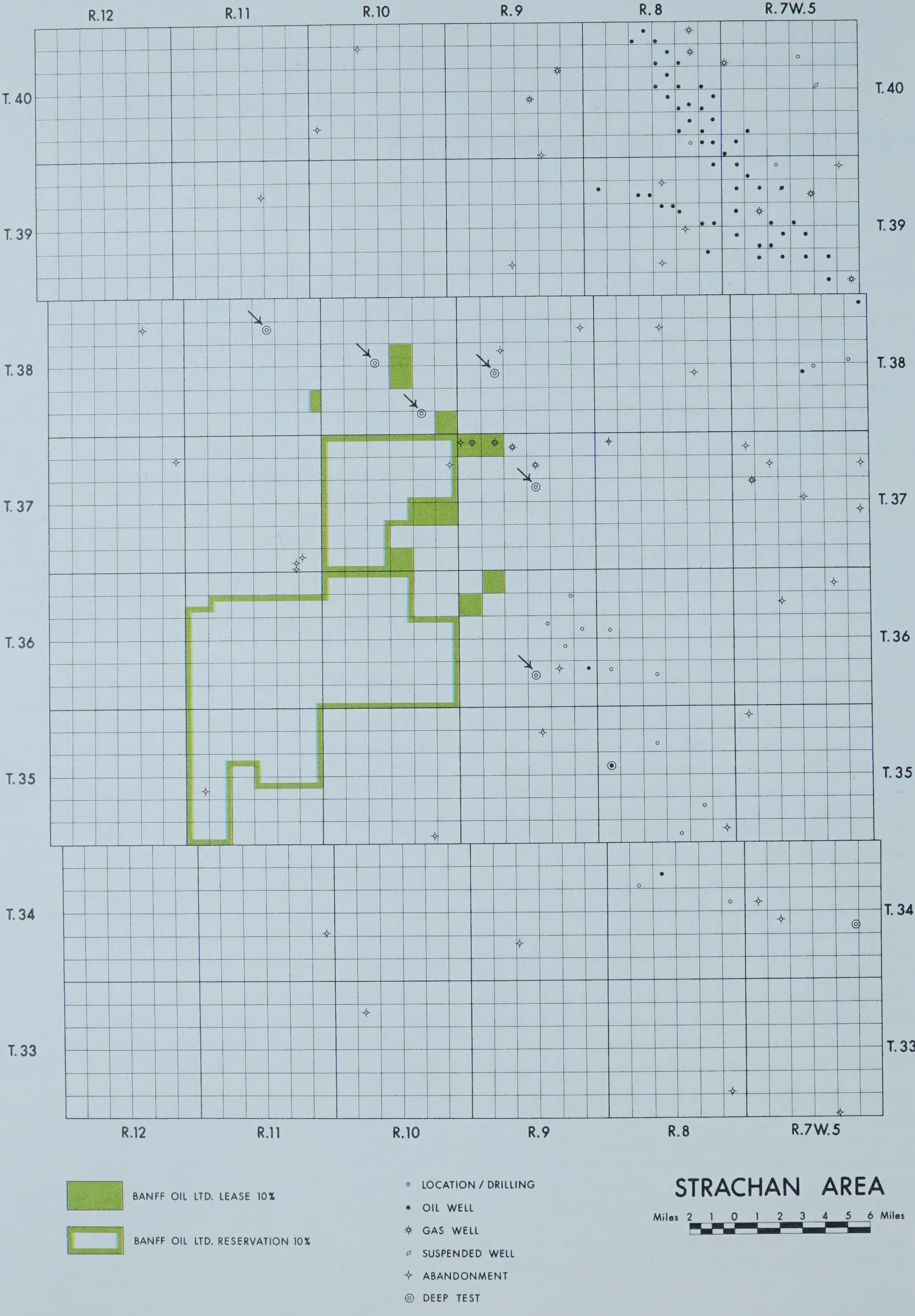
In spite of the building of the Lakehead line, no Canadian oil has yet been sold in Chicago, and the Prudhoe Bay discovery casts a shadow over the prospect of increased sales of Canadian oil to the Midwest. Driven by this threat, the Western Canadian producer has presented carefully reasoned proposals to the federal government, supported publicly by the Alberta government. As a result, awareness of producer problems and understanding of the bargaining position of Canada has increased greatly in Ottawa. It is my opinion that, with careful negotiation, the American need to buy Canadian gas and the Canadian need to sell more oil can be combined to form a continental oil and gas policy which will provide substantial future growth for all oil and gas found in Canada.

Within this framework the Board of Directors feels that it is particularly appropriate that the Company continue its emphasis on prospective land acquisitions while developing its gas reserves at Strachan as rapidly as possible.

Submitted on behalf of the Board of Directors,

J. C. Rudolph

March 28, 1969 President



STRACHAN AREA

EXPLORATION

Exploration activity of the whole Canadian petroleum industry diversified greatly in 1968. Although more than 200 wells were drilled in the Rainbow-Zama trend, the major news was generated by the discovery and development of the Fox Creek-Clark Lake wet gas field (Swan Hills member) and by the discovery of a second major gas field (Leduc Formation) at Strachan. The Prudhoe Bay discovery greatly stimulated land acquisition and prices and overall exploration effort in the Canadian north. In Saskatchewan no significant discoveries were made during the year despite the large drilling program conducted by Pheasant Petroleums Ltd.

The Company's major exploratory activities were at Rainbow, Strachan, and as a participant in the Pheasant program in Saskatchewan.

NORTHERN ALBERTA

Rainbow

Banff's major drilling effort in 1968 continued to be in the prolific Rainbow area. The Company drilled a total of twelve wells, ten exploratory and two development. Five discoveries resulted, three Rainbow reef oil wells, one Rainbow reef gas well, and one dual zone oil and gas well. One of the discoveries, Banff Mobil Rainbow 15-9-109-8-W6M, encountered 430 feet of oil pay with excellent reef porosity. Both development wells were successful.

Amber River

On this prospect, located between the Rainbow and Zama producing areas, a well drilled in early 1969 indicated a discovery in the lower Keg River formation. It is located on 2,736 acres of Indian permit lands in which the Company has a 10% interest.

CENTRAL AND SOUTHERN ALBERTA

Strachan

Banff Aquitaine Strachan 10-31 (Lsd. 10-31-37-9-W5M) was completed as a substantial sour gas discovery in the Leduc formation during 1968. In early 1969 Banff Aquitaine Strachan 7-32-37-9-W5M, a follow-up located one mile east, was also completed with a substantial thickness of excellent sour gas pay. Banff's interest in the two wells and in the leases on which they were drilled is 10%.

A rumored Leduc gas discovery about twelve miles south and several rumored Cardium oil discoveries have increased interest in the area, as evidenced by the extremely high land prices in the last Crown tender sales. Currently there are seven deep (Leduc) and thirteen shallow (Cardium) exploratory tests drilling in the area. Six of these deep tests are within four miles of Banff-Aquitaine lands, as shown by the map of the area on the previous page.

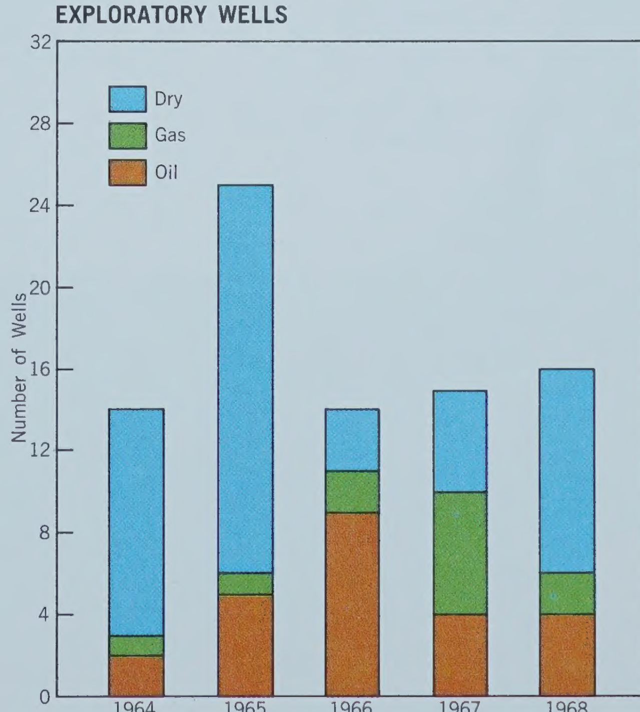
Pembina River

Here the Company has a 10% interest in 193,120 reservation acres, a 25% interest in 4,800 lease acres, and a 0.75% overriding royalty in 19,200 lease acres. Three gas and two oil discoveries have been made to the northwest of the reservation acreage. The closest of

GENERAL REVIEW

SEISMIC —STRACHAN

Banff Operated Drilling Record
EXPLORATORY WELLS



WELL DRILLING RECORD - 1968

EXPLORATORY

WELL	LOCATION	COMPANY INTEREST %	TOTAL DEPTH	STATUS
Banff Aquit RainS 13-2	13-2-107-10-W6M	10	7,330'	Rainbow Reef Oilwell
Banff Aquit RainS 5-9	5-9-107-10-W6M	10	6,750'	Rainbow Reef & Muskeg Oilwell
Banff Aquit RainS 11-14	11-14-107-10-W6M	10	6,616'	Abandoned
Banff Aquit RainS 9-12	9-12-107-10-W6M	10	6,700'	Abandoned
Banff CDR BlackCk Rain 3-18	3-18-110-9-W6M	5	7,010'	Abandoned
Banff Aquit RainS 3-12	3-12-108-11-W6M	10	6,690'	Abandoned
Banff Mobil Rainbow 11-11	11-11-110-8-W6M	5	6,900'	Abandoned
Banff Mobil Rainbow 15-9	15-9-109-8-W6M	5	6,385'	Rainbow Reef Oilwell
Banff Mobil Spect Rain 9-36	9-36-108-7-W6M	5	6,025'	Rainbow Reef Gas Well
Banff Aquit RainS 13-7	13-7-107-10-W6M	10	6,747'	Rainbow Reef Oilwell
Banff Aquit Strachan 10-31	10-31-37-9-W5M	10	14,934'	Leduc (D3) Gas Well
Banff et al Beaverskin a-75-G	a-75-G-94-I-1	10	7,970'	Abandoned
Banff Aquit Kathleen a-35-E	a-35-E-94-I-8	10	7,340'	Abandoned
Banff et al Asquith 13-1	13-1-38-8-W3M	33.33	3,925'	Abandoned
Banff Aquit Lepine Lake 1-25	1-25-62-25-W3M	25	3,777'	Abandoned
Banff Aquit Cold Lake 14-17	14-17-65-26-W3M	50	2,470'	Abandoned
Jeff Lake et al E. Oungre 12-12	12-12-2-13-W2M	* 6.25	9,230'	Abandoned
Mesa et al Zama 10-1	10-1-118-5-W6M	* 2.25	5,527'	Abandoned
Arco Sinclair Gold Creek 6-36	6-36-66-4-W6M	** 6.67	12,150'	Abandoned
Texcan Carcajou 10-24	10-24-100-18-W5M	*15	5,196'	Abandoned
Stampede Banff Aquit N Paddy a-63-J	a-63-J-94-H-16	* 5	2,918'	Suspended
Sierra Banff Jeffery 8-8	8-8-59-24-W4M	*50	3,880'	Basal Quartz Gas Well
Sun et al Kemp 4-28	4-28-101-21-W5M	* 1.875	5,691'	Abandoned
Jeff Lake et al Torquay 2-4	2-4-4-11-W2M	* 6.25	9,950'	Abandoned
Home Banff Shaunavon 8-19	8-19-5-14-W3M	25	4,239'	Abandoned
Seafort et al W. Provost 10-7	10-7-37-8-W4M	5	3,526'	Viking Gas Well

DEVELOPMENT

WELL	LOCATION	COMPANY INTEREST %	TOTAL DEPTH	STATUS
Banff Mobil Rain 4-26	4-26-108-8-W6M	5	6,062'	Triple Zone Gas Well
Banff Mobil Rainbow 8-32	8-32-109-8-W6M	5	6,815'	Rainbow Reef Oilwell
Arco Sinclair Gold Creek 7-31	7-31-67-5-W6M	** 6.67	12,320'	Suspended Bluesky Gas Well
Jeff Lake et al Cross 7-26	7-26-26-9-W4M	2.42	8,865'	Crossfield Gas Well
Jeff Lake et al Cross 11-36	11-36-25-29-W4M	2.42	8,780'	Crossfield Gas Well
Dome Unit Provost 9-22	9-22-37-6-W4M	.277	2,535'	Viking Gas Well
Dome Unit Provost 12-14	12-14-36-4-W4M	.277	2,286'	Viking Gas Well
Dome Unit Provost 13-20	13-20-37-6-W4M	.277	2,560'	Viking Gas Well
Dome Unit Provost 8-32	8-32-36-3-W4M	.277	2,290'	Viking Gas Well
Dome Unit Provost 9-20	9-20-36-5-W4M	.277	2,597'	Viking Gas Well
Dome Unit Provost 3-20	3-20-36-4-W4M	.277	2,351'	Viking Gas Well
Dome Unit Provost 2-20	2-20-36-3-W4M	.277	2,335'	Viking Gas Well
Dome Unit Provost 1-16	1-16-36-3-W4M	.277	2,384'	Viking Gas Well
Dome Unit Provost 16-13	16-13-36-3-W4M	.277	2,281'	Viking Gas Well

*Farmout of Banff Interest Land
**Net Carried Interest

	RESERVATION AND PERMIT ACRES				LEASE ACRES			
	Gross		Net		Gross		Net	
	1968	1967	1968	1967	1968	1967	1968	1967
Alberta	702,736	908,476	64,481	148,450	839,609	927,006	127,212	197,453
Saskatchewan	2,465,836	2,226,964	833,994	690,179	311,239	195,689	64,442	57,584
British Columbia	763,254	619,696	73,759	58,186	17,829	6,368	1,783	636
*Offshore Arctic Islands	4,090,385	—	1,022,596	—	—	—	—	—
*Other Northwest Territories	2,341,612	2,151,941	282,300	161,587	—	484	—	484
Manitoba	24,943	—	12,471	—	160	—	160	—
	10,388,766	5,907,077	2,289,601	1,058,402	1,168,837	1,129,547	193,597	256,157

*Federal Oil and Gas Regulations allow an operator to go to lease on 100% of a permit under certain prescribed conditions.

these, an indicated Cardium oil well, is five miles from the Company's acreage. The Company is currently conducting a reconnaissance seismic program of the area.

NORTHEASTERN BRITISH COLUMBIA

An extensive geophysical program is now underway on the large land holdings in which Banff has a 10% interest in the Steamboat-Kledo area.

NORTHWEST AND YUKON TERRITORIES

Banff has now acquired a 25% interest in 4,300,000 acres, mainly offshore in the Beaufort Sea. An intensive seismic program is currently in progress on the Cloverleaf, Johnson, Brackett, and Norman Wells blocks in which Banff has a 10% interest.

SASKATCHEWAN

The feature of exploration activity during 1968 was the multiple well program along the Winnipegosis trend of Central Saskatchewan. The program, which was organized and co-ordinated by Pheasant Petroleums Ltd., comprised 46 Winnipegosis tests drilled on behalf of 17 participating companies. As part of the project, Banff and partners committed to six wells drilled during the first quarter of 1969.

Cold Lake

A structure test program was followed by the drilling of two Winnipegosis tests during 1968, both of which were abandoned after encountering water in the reef. During the year, the Company's acreage position in the area was increased by 467,400 acres through acquisition and farmin; Banff's interest in most of these lands is 50%. An active exploration program is planned for the area during 1969.

LAND

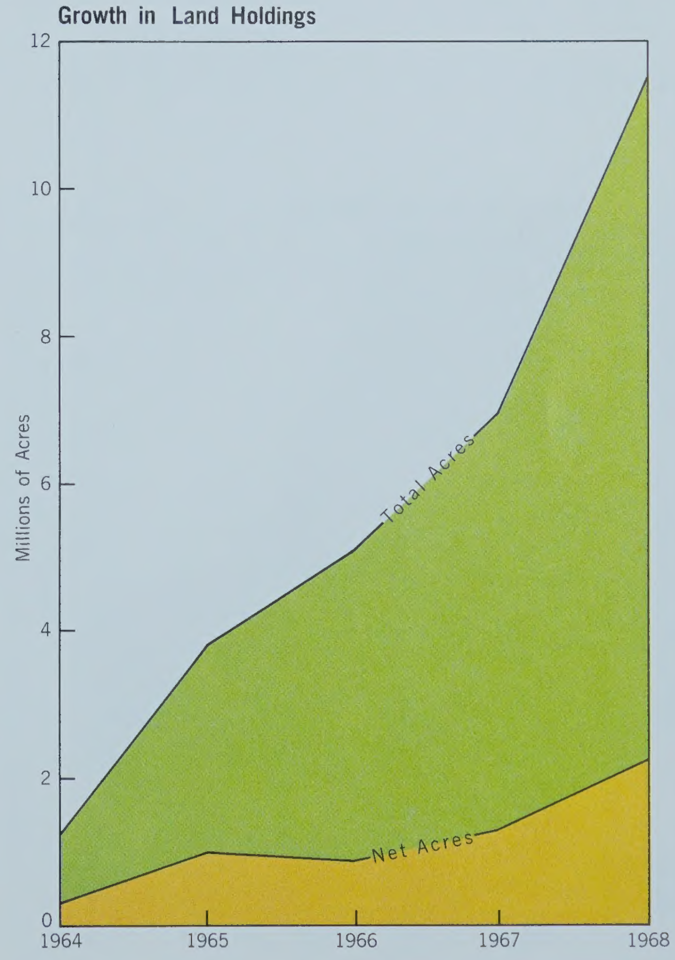
During 1968 the Company increased its gross acreage throughout Western and Northern Canada by 4,520,979 acres. In the Arctic Islands, the Company acquired a 25% interest in 2,900,327 acres of offshore permits situated west of Banks Island and a 25% interest in 1,190,058 permit acres south of Melville Island. Interests of 10% were acquired in 200,413 permit acres in northeastern British Columbia and in other permits in the Oscar Creek, Root River, and Brackett Lake areas of the Northwest Territories. An interest of 10% in 73,280 reservation acres is held by the Company in the Strachan-Ricinus area, and these holdings were augmented by the purchase of 3,840 acres of Crown Leases, also 10%, during the year. This acreage is in the immediate vicinity of two record priced drilling reservations.

DEVELOPMENT

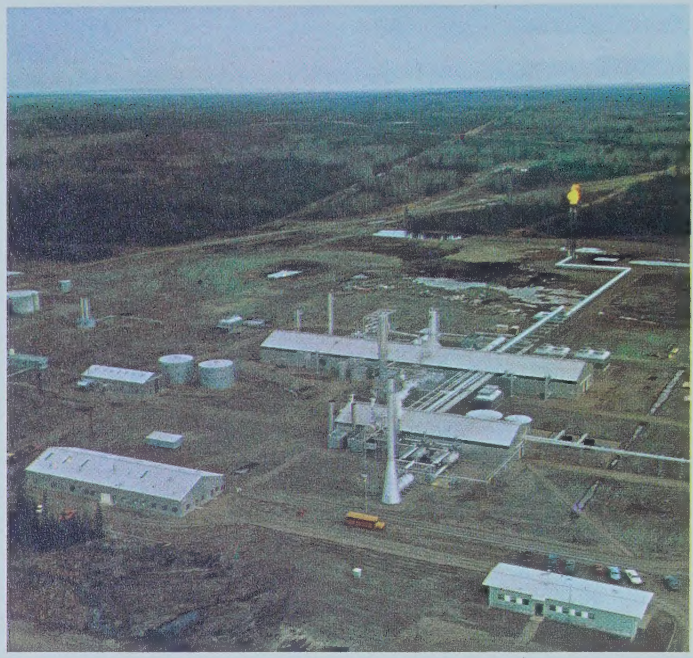
RAINBOW AREA

In 1968 two development wells were drilled in the Rainbow area. One well was a triple zone gas well extension of C Pool and the second well was completed in the A Pool to provide additional productive capacity.

DRILLING — COLD LAKE



PROCESSING PLANT—RAINBOW



At the end of 1968 Banff had interests in 28 oil reservoirs and 31 natural gas reservoirs in the Rainbow area distributed as shown below.

Formation	Reservoirs Oil	Reservoirs Gas	Wells Oil	Wells Gas
Watt Mountain	—	1	—	—
Slave Point	—	3	—	1
Sulphur Point	2	11	—	1
Muskeg	6	7	2	—
Rainbow Reef	20	9	47	10
	28	31	49	12

A significant development in 1968 was the completion of the processing plant and the subsequent initiation of a solvent flood project for several Keg River oil pools. The plant, built at a cost of $14,000,000 (of which Banff's interest is 5%) went on stream September 1, 1968. It is designed to extract the gas from a maximum 56,000 barrels of crude oil daily, producing 70 long tons of sulphur, 8,000 barrels of liquids (propane, butane and pentane) and 30 million cubic feet of sweet dry gas. The plant is also designed to process gas from gas fields in the area, and uses this gas to maintain a constant load in the processing section during periods of low oil production.

Under the solvent flood project, approved by the Alberta Oil and Gas Conservation Board and known as Integrated Scheme No. 1, natural gas liquids and sweet dry gas are mixed and injected into the Keg River A Pool. The producing allowables of five other Banff interest pools (D, E, G, H, O) have been transferred to the A pool, and when this pool is exhausted the gas will be recovered and used again to increase production from the five pools. This procedure combines the most efficient recovery mechanism with the optimum use of the gas reserves available.

The B Pool waterflood began on March 1, 1968 and in 1968 injection averaged 13,150 barrels of water per day. On June 1, 1968 the recovery factor assigned by the Alberta Oil and Gas Conservation Board to the B Pool was increased from 45% to 57%, an increase of 31,200,000 barrels of recoverable oil due to the waterflood.

Calgary Crossfield Unit

Two gas wells were drilled in this unit during 1968 (Banff's interest 2.42%).

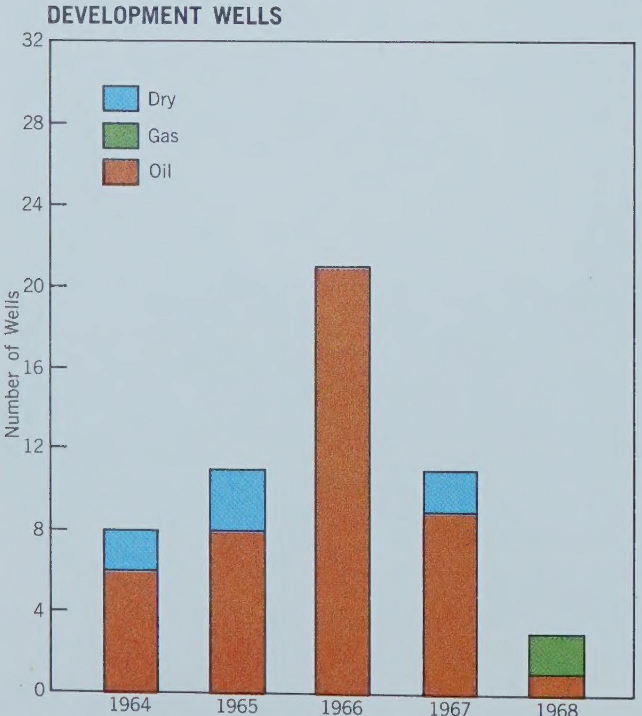
Smoky River Area

One development well, a potential Bluesky gas well, was completed in this area in 1968. Tenders have been let for the construction of a processing plant designed, initially, for an output of 3,600 barrels per day of natural gas liquids, 99 long tons of sulphur, and 37 million cubic feet per day of sweet sales gas. Banff has a 6⅔% net carried interest in this project which is expected to be on stream by January 1, 1970.

Rainbow Pipe Line

The Rainbow Pipe Line Company Ltd. (owned 3⅓% by Banff) increased its average throughput during 1968 by 39.6% to 54,754 barrels per day. The present capacity of the line is over 100,000 barrels per day which is adequate to handle deliveries in 1969.

Banff Operated Drilling Record
DEVELOPMENT WELLS



PRODUCTION

The increase in net oil production was attributable to the Rainbow area which increased 33.7%, and more than offset the loss in production arising from the sale of properties.

Production from all of the Company's principal gas fields increased in 1968. The Elkton gas unit was 25.9% ahead of 1967 and represented over one-half of the gain in the Company's gas production for the year. A full year's operation from the North Provost Viking Unit and Sexsmith made these fields other important contributors.

The largest sulphur production increase resulted from the expansion of the Petrogas processing plant in the Calgary Crossfield field.

NET PRODUCTION

	1968	1967	Net Change
Crude Oil (barrels) . .	603,218	528,705	+14.1
Pipeline Gas (mmcf.)	3,595	2,460	+46.1
Natural Gas Liquids (barrels)	103,641	99,388	+ 4.3
Sulphur (long tons) .	16,158	13,923	+16.1

RESERVES

The crude oil reserves of the Company are mainly in the Rainbow fields while the natural gas reserves and products are mainly in the Calgary, Wimborne and Strachan gas fields. Gas reserves given in this report do not include those contained in the second Strachan well.

During 1968, the Company disposed of its interests in several oil and gas fields. These fields were Bashaw, Bittern Lake, Crossfield (Cardium), Erskine, Excelsior, Fork Lake, Joseph Lake and Matziwin in Alberta and Hastings, Nottingham and South Fletwode in Saskatchewan. These properties represented an interest in 46 gross wells, or 17.6 net wells, and the reserves sold represented 529,252 barrels of oil, 14,920 million cubic feet of natural gas, 29,506 barrels of natural gas liquids and 3,914 long tons of sulphur.

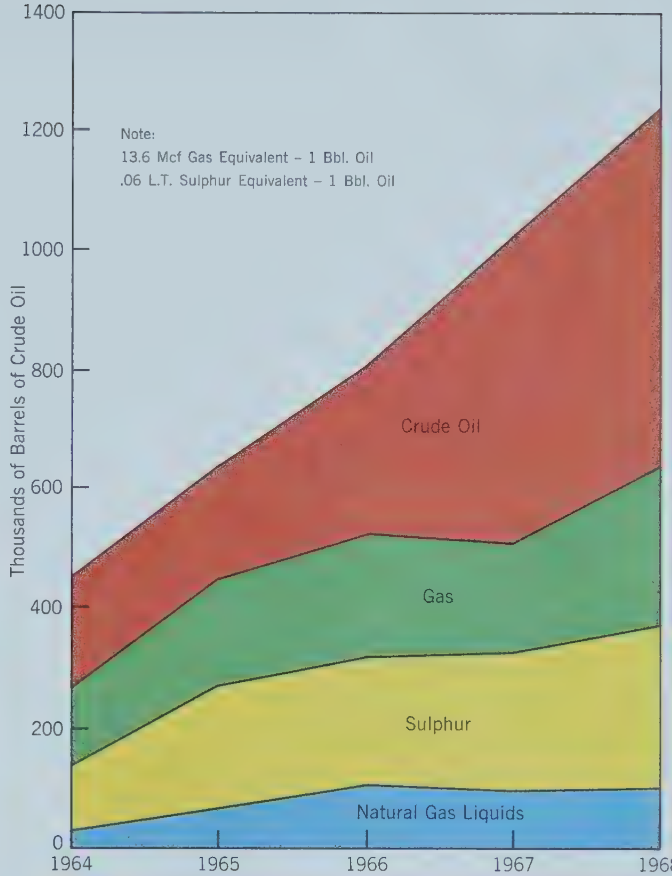
The net reserves to the Company at the end of 1968 are shown in the accompanying table. A recent study of the Company's Rainbow reserves conducted by an independent consulting engineer shows the year end Rainbow figures included in the tabulation to be conservative.

NET RESERVES
(Proven and Probable)

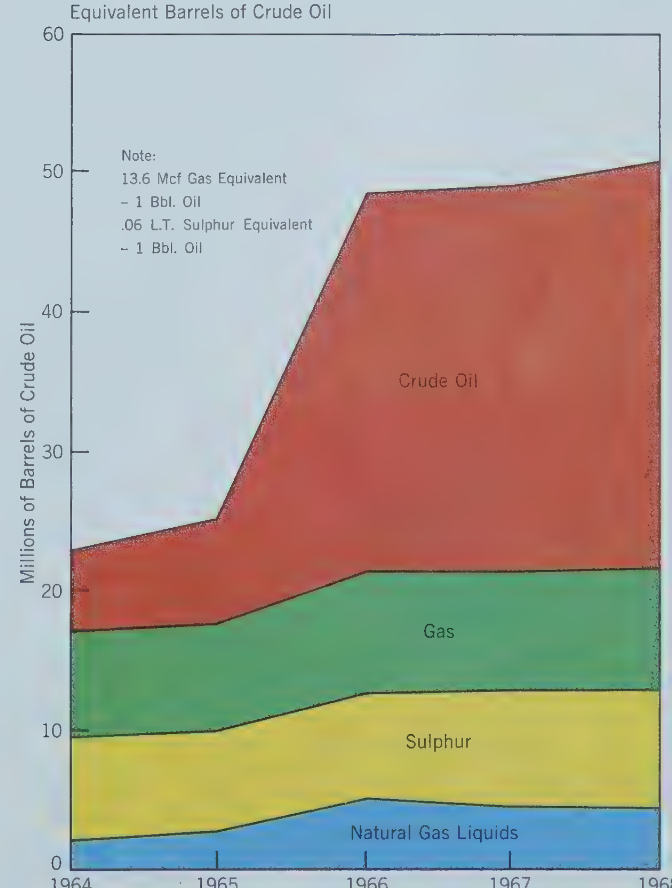
	1968	1967	Net Change
Crude Oil (barrels) . . .	29,154,721	27,585,903	+5.7%
Pipeline Gas (mmcf.) . . .	120,527	118,533	+1.7%
Natural Gas Liquids (barrels) . . .	4,276,725	4,386,836	−2.5%
Sulphur (long tons) . .	511,580	505,775	+1.1%

The major oil additions in 1968 were at Rainbow, while the significant pipeline gas and sulphur additions were in the Strachan area.

Annual Production
Equivalent Barrels of Crude Oil



Year End Reserves
Equivalent Barrels of Crude Oil



FINANCIAL REVIEW

SALES, CASH INCOME, NET INCOME

The year 1968 saw continuation of the growth which was started so dramatically in 1965 with the discovery of the Rainbow field. Sales increased by $633,709 to $2,940,038 due mainly to increased oil production from Rainbow, although gas sales also showed a favourable increase. An offsetting factor was a decline in the average price of sulphur sold from $34.53 per ton in 1967 to $28.33 in 1968. This caused a decrease in sulphur sales revenue from 1967 of $23,000 despite an increase of 16% in the volume sold. The price reduction is due to an over-supply of sulphur in world markets, and the price may decline further in 1969.

As a result of increased sales and only a modest increase in expenses, cash income increased to $1,611,542 and net income to $1,049,908, up over 1967 by 45% and 44% respectively. On a per share basis, cash income was 31.4¢ (1967 — 24.4¢) and net income 20.4¢ (1967 — 16.0¢). One of the highlights of the year was the elimination of the deficit accumulated since incorporation in 1951. At December 31, 1968, retained earnings were $838,876.

ARRANGEMENT WITH AQUITAINE COMPANY OF CANADA LTD.

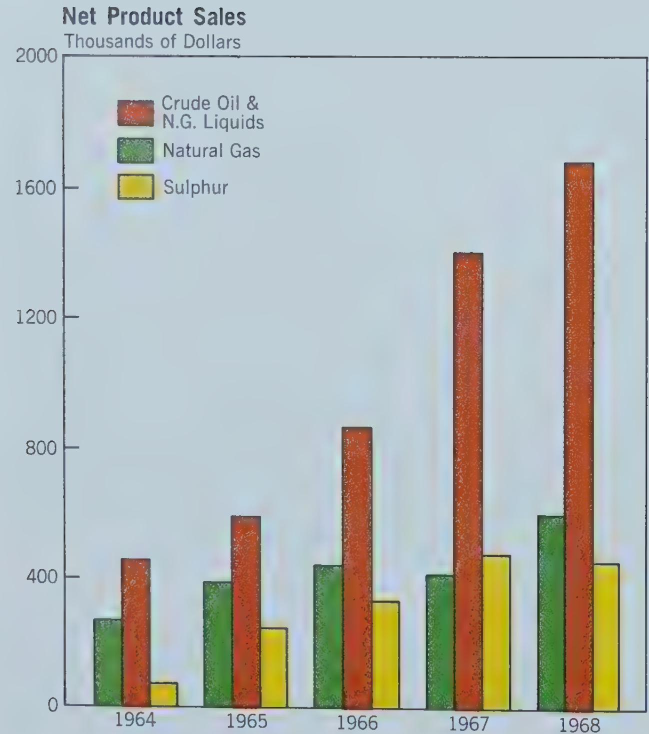
Pursuant to an arrangement with Aquitaine, the Company acts as an independent contractor to recommend participation in certain prospects and to explore for and develop reserves of oil, gas and related products. The Company participates to varying extents in such prospects. Aquitaine pays a share of certain of the Company's administrative expenses. In 1968 that company's share of such expenses was $2,350,131 being 80% of the total administrative costs.

FINANCING

Interest expense was reduced materially during 1968 as a result of the retirement of the bank loans of $5,700,000 and notes payable of $200,000 from the proceeds of the share issue in March. This issue, under which rights to purchase 761,537 common shares at $9.375 (Canadian) per share were offered to the Company's shareholders, was very well received and resulted in net proceeds after expenses of $6,856,648 accruing to the Company. The proceeds in excess of that required to repay the bank loans and notes were added to working capital enabling the Company to complete the year without borrowing additional funds.

CAPITAL EXPENDITURES

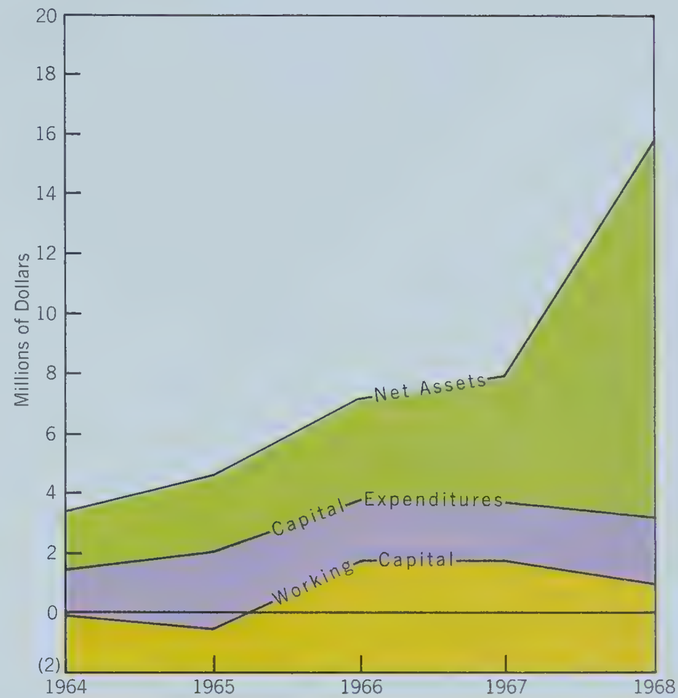
Expenditures on the acquisition of exploratory properties were maintained at approximately the same



level as in the preceding year, while expenditures on proven properties declined with the maturing of the Rainbow development.

PROPERTY DISPOSALS

In line with the Company's policy of devoting maximum effort to exploration, a number of economically marginal properties were sold during the year for a total of $442,000. None of these properties contributed materially to cash income.



INCOME TAX

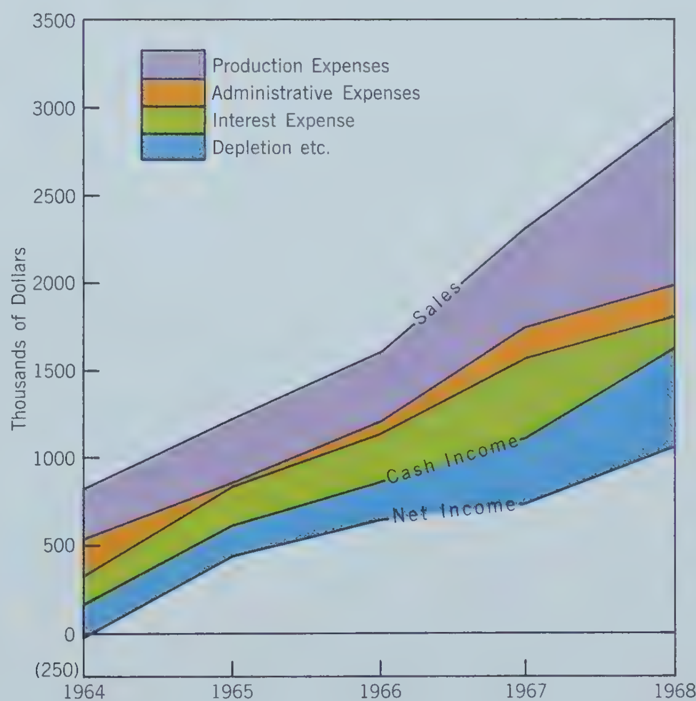
The Company does not account for income taxes on a tax allocation basis as recommended by certain accounting authorities. A brief explanation of this concept together with other pertinent information regarding income taxes is explained in Note 7 to the financial statements. No liability for income taxes is anticipated in the foreseeable future and, therefore, in the opinion of management any provision for income taxes recorded currently would result in a misleading understatement of net income. This same view is held by many companies in the Canadian oil and gas industry.

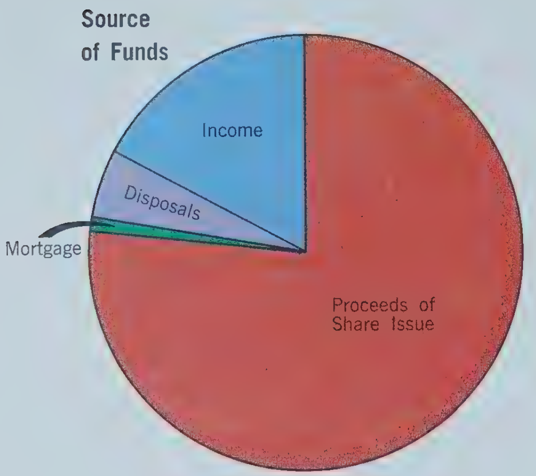
The Royal Commission on Taxation, under the Chairmanship of Kenneth Carter, completed its work in 1966. Even today the nature of any proposed changes in the tax laws is still unknown, although Banff Oil and other members of the petroleum industry have voiced strenuous opposition to many of the Carter recommendations. The delay, when coupled with the adverse recommendations of the report, has created unnecessary uncertainty in the conduct of our business.

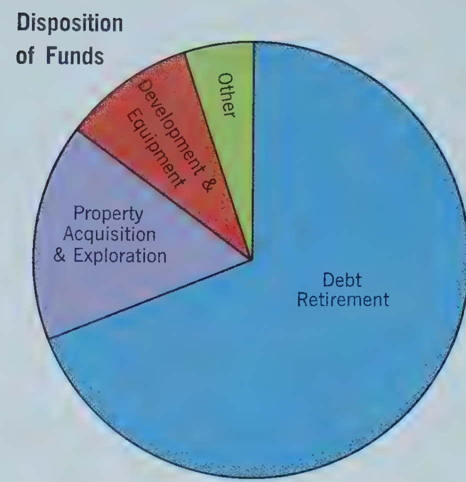
SHARE CAPITAL

During the year, by Special Resolution, the authorized capital was reorganized by cancelling the 7,000 cumulative redeemable convertible 5% preferred shares, all of which had been converted to common shares or were unissued, and increasing the authorized common shares of a par value of 50¢ each from 6,000,000 to 10,000,000.

At December 31, 1968, the Company had issued 5,330,759 common shares which, with the exception of 770,000 shares issued to Aquitaine Company of Canada Ltd. and certain European investors, are exempt from the Interest Equalization Tax when purchased by United States citizens, and may be traded freely on the Toronto and American Stock Exchanges. The 770,000 non-exempt shares are listed separately for trading on The Toronto Stock Exchange under the listing reference BNFNX.







STATEMENT OF CONSOLIDATED SOURCE AND DISPOSITION OF FUNDS

Years Ended December 31, 1968 and 1967

(Canadian dollars)

	1968	1967
SOURCE OF FUNDS		
Cash income	$1,611,542	$1,115,244
Bank loans	—	1,900,000
Issue of shares less expenses	6,856,648	80,170
Proceeds of mortgages	87,055	—
Advances from joint venture participants	—	700,000
Disposals of property, plant, equipment and other assets	484,013	95,308
	9,039,258	3,890,722
DISPOSITION OF FUNDS		
Acquisition of property and lease rentals	708,664	1,091,328
Exploratory drilling and seismic surveys	903,078	875,543
Development drilling and equipment	592,156	905,674
Gas processing plant	435,234	217,376
Administrative expenses less recoveries capitalized	412,943	297,971
Investments	29,469	41,295
Other assets	46,126	258,927
Reduction of deferred credit arising from sale of future production	261,535	181,976
Payment of long term debt	5,900,000	—
Decrease in advances from joint venture participants	655,000	—
	9,944,205	3,870,090
INCREASE (DECREASE) IN WORKING CAPITAL DURING THE YEAR	(904,947)	20,632
Working capital, beginning of year	1,878,673	1,858,041
Working capital, end of year	$ 973,726	$1,878,673

(See accompanying notes)

STATEMENT OF CONSOLIDATED OPERATIONS AND RETAINED INCOME

Years Ended December 31, 1968 and 1967

(Canadian dollars)

	1968	1967
Sales	$2,940,038	$2,306,329
Less		
Production expenses	955,969	567,728
Administrative expenses less recoveries (Note 9)	178,262	162,159
Interest expense	194,265	461,198
	1,328,496	1,191,085
Cash income	1,611,542	1,115,244
Less		
Depletion (Note 1)	334,464	254,684
Depreciation (Note 1)	158,862	100,037
Amortization of financing costs (Note 1)	22,624	15,349
Amortization of deferred charges	45,684	13,586
	561,634	383,656
NET INCOME FOR THE YEAR (Note 7)	1,049,908	731,588
Deficit, beginning of year	(211,032)	(942,620)
Retained income (deficit), end of year	$ 838,876	$ (211,032)
CASH INCOME PER SHARE	31.4¢	24.4¢
NET INCOME PER SHARE	20.4¢	16.0¢

(See accompanying notes)

AUDITORS' REPORT

To the Shareholders of Banff Oil Ltd.

We have examined the statement of consolidated financial position of Banff Oil Ltd. and subsidiary as at December 31, 1968 and the statements of consolidated operations and retained income and consolidated source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and disposition of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the inclusion of the accounts of the subsidiary in the consolidated financial statements as explained in Note 1 to the consolidated financial statements.

Calgary, Alberta
March 10, 1969

PRICE WATERHOUSE & CO.
Chartered Accountants.

STATEMENT OF CONSOLIDATED FINANCIAL POSITION – December 31, 1968 and 1967

(Canadian dollars)

NET ASSETS

	1968	1967
CURRENT ASSETS		
Cash	$ 241,895	$ 607,088
Marketable securities at cost	—	7,420
Accounts receivable	4,142,589	3,160,231
Inventories		
Sulphur at net sales price	380,502	151,002
Materials and supplies at cost	92,339	160,309
	4,857,325	4,086,050
Less CURRENT LIABILITIES		
Accounts payable		
Associated company — Aquitaine Company of Canada Ltd.	1,153,957	(1,028,676)
Other	2,729,642	3,236,053
	3,883,599	2,207,377
WORKING CAPITAL	973,726	1,878,673
INVESTMENTS in shares and debentures in other companies at cost (no market quotations) (Note 2)	597,846	442,720
PROPERTY, PLANT AND EQUIPMENT at cost (Note 1)	17,837,278	15,573,755
Less accumulated depletion and depreciation	1,851,161	1,764,812
	15,986,117	13,808,943
OTHER ASSETS (Note 3)	364,237	591,890
TOTAL ASSETS LESS CURRENT LIABILITIES	17,921,926	16,722,226
Less ADVANCES FROM JOINT VENTURE PARTICIPANTS (Note 4)	945,000	1,600,000
	16,976,926	15,122,226
Less LONG TERM DEBT (Note 5)	87,055	5,900,000
	16,889,871	9,222,226
Less DEFERRED CREDIT arising from the sale of future production less unamortized financing costs (1968 — $94,200; 1967 — $116,824) (Note 1)	1,017,400	1,256,311
NET ASSETS	$15,872,471	$ 7,965,915
COMMITMENTS AND CONTINGENCIES (Note 8)		

SHAREHOLDERS' EQUITY

	1968	1967
SHARE CAPITAL (Note 6)		
Authorized		
10,000,000 common shares of a par value of 50¢ each		
Issued		
5,330,759 common shares (1967 — 4,569,222 shares)	$ 2,665,379	$ 2,284,611
CONTRIBUTED SURPLUS (Note 6)	12,368,216	5,892,336
RETAINED INCOME (DEFICIT)	838,876	(211,032)
SHAREHOLDERS' EQUITY	$15,872,471	$ 7,965,915

(See accompanying notes)

Approved on behalf of the Board

J. C. Rudolph, Director

L. Pradal, Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1968

(Canadian dollars)

1. ACCOUNTING PRACTICES

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Seacrest Oil Company, which has been consolidated for the first time in 1968 with no material effect on the consolidated accounts. For comparative purposes the 1967 accounts have been restated to reflect this change.

The Company capitalizes all costs related to the exploration for and development of reserves of oil, gas and related products. Depletion of such costs and depreciation of production equipment and gas processing plants is provided for by the unit of production method based on total estimated reserves of oil and gas. Depreciation of other equipment is provided for by the straight line method at rates from 4% to 20% based on the estimated life of the asset.

The deferred credit arising from the sale of future production in 1963 less the related financing costs is being taken into income as the gas and products required to liquidate the payment are produced.

2. INVESTMENTS IN OTHER COMPANIES

Investments in other companies include shares of a company engaged in sulphur exploration. The total cost of shares amounting to $883,927 was financed to the extent of 90% by cash advances of $795,534 from a participant in the venture. The advances are repayable only from 90% of any future dividends or return of capital received from the company.

Prior to 1968 the advances were included in advances from joint venture participants and the total cost of the shares which are registered in the name of the Company was included in investments in other companies. In 1968 the advances of $795,534 were deducted from the total cost of the investment and the net amount of $88,393, representing a 10% interest owned by the Company, is included under investments in other companies. The comparative amounts for 1967 reflect this change in presentation.

3. OTHER ASSETS

	1968	1967
Refundable deposits	$232,080	$141,496
Deferred charges less accumulated amortization (1968 — $11,266; 1967 — $13,586)	101,391	180,590
Gas plant under construction	—	217,376
Other	30,766	52,428
	$364,237	$591,890

The gas plant was completed and all costs transferred to property, plant and equipment during 1968.

4. ADVANCES FROM JOINT VENTURE PARTICIPANTS

The advances from joint venture participants are monies advanced by the Company's joint venture partners for their share of expenditures incurred by the Company on their behalf. Included in the advances of $945,000 is an amount of $400,000 owing to Aquitaine Company of Canada Ltd.

5. LONG TERM DEBT

	1968	1967
7% and 7¼% housing mortgages, repayable in monthly instalments of $622 including interest, until 1993	$87,055	$ —
Bank loan, with interest at current rate, secured by certain producing properties	—	5,700,000
7¼% notes payable to associated company	—	200,000
	$87,055	$5,900,000

6. SHARE CAPITAL, CONTRIBUTED SURPLUS AND SHARE OPTIONS

	Share capital		
	Number of shares	Amount	Contributed Surplus
Balance, January 1, 1968	4,569,222	$2,284,611	$ 5,892,336
Shares issued for cash during the year	761,537	380,768	6,752,206
			12,644,542
Less share issue expenses			276,326
Balance, December 31, 1968	5,330,759	$2,665,379	$12,368,216

Details of incentive share options granted are as follows:

	Number of shares	Option price
Outstanding, January 1, 1968	1,089	$12.75
Granted	83,000	10.625
Expired	(1,089)	12.75
Cancelled upon termination of employment	(6,250)	10.625
Outstanding, December 31, 1968	76,750	10.625

The outstanding options at December 31, 1968 are exercisable in instalments, on a cumulative basis, until 1972. 24,339 shares are reserved for the granting of future incentive share options to officers and employees.

During the year the share capital was reorganized by cancelling the 7,000 authorized preferred shares and increasing the authorized common shares from 6,000,000 to 10,000,000 shares.

7. INCOME TAXES

For income tax purposes, the Company claims lease acquisition, exploration and drilling costs and capital cost allowance (depreciation) in amounts, which in the aggregate, exceed the related depletion and depreciation reflected in its accounts. As a result, no income taxes are payable for the current year and unclaimed drilling and exploration expenses of approximately $9,000,000 are available to be applied against future taxable income. In addition, costs of approximately $2,600,000 may be claimed as a deduction for income tax purposes by way of capital cost allowance.

The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants recommends income tax allocation for all differences in the timing of deductions for tax and accounting purposes which originate in financial years commencing on or after January 1, 1968. The Company, in common with many other companies in the Canadian oil and gas industry, believes that tax allocation in respect of lease acquisition, exploration and drilling costs is not appropriate and this position is accepted by accounting authorities outside Canada. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs for the year ended December 31, 1968. If the tax allocation basis had been followed, for all timing differences, net income for the year would have been reduced by $339,000 ($259,000 in 1967) and the accumulated effect amounts to $785,000 at December 31, 1968.

The Company claims capital cost allowance to the extent of depreciation recorded in its accounts and therefore no provision for deferred income taxes is required in respect of such costs.

8. COMMITMENTS AND CONTINGENCIES

Annual rental obligations for equipment and buildings under long term leases are: 1968 — $790,000 (1967 — $674,000) 1969 — $547,000; 1970 — $386,000; 1971 — $77,000; 1972 — $22,000; 1973 and thereafter until 1987 — $20,000.

The equipment is mainly used in the exploration for and development of reserves of oil, gas and related products. Accordingly a substantial portion of the rentals are recovered from joint venture participants with the Company's share being capitalized in property, plant and equipment. The equipment was initially purchased by the Company, then sold, and leased back for varying terms at a specified monthly rental.

Under an agreement whereby a lease for an aircraft was assigned, the Company has guaranteed payment of the lease obligations of $15,400 per month in the event of default of the provisions of the lease by the sub-lessor. In a related transaction, the Company has agreed, for a period of two years ending November 30, 1970, to pay an amount representing certain fixed expenses applicable to the aircraft transferred if utilization of the aircraft is below certain levels. The maximum liability would be $27,750 per month, which amount is reduced as the utilization increases.

The Company is contingently liable to Aquitaine Company of Canada Ltd. in an amount of approximately $95,000 being its share of performance deposits placed by Aquitaine in respect of properties in which both companies have an interest.

9. SUPPLEMENTARY INFORMATION

Pursuant to a series of agreements entered into annually with Aquitaine Company of Canada Ltd. the Company acts as an independent contractor to recommend participation in certain exploration prospects and to explore for and develop reserves of oil, gas and related products. The Company participates generally to the extent of 50% of the combined Banff-Aquitaine interest in projects in Manitoba, Saskatchewan and Southern Alberta and to the extent of 10% of the combined Banff-Aquitaine interest in other areas of Western and Northern Canada. Under the agreement Aquitaine has agreed to pay certain of the Company's administrative expenses. In 1968 this resulted in the recovery by the Company of $2,350,131 (1967 — $1,851,616).

Aggregate direct remuneration paid to directors and senior officers in 1968 amounted to $205,394 (1967 — $178,827).

FIVE YEAR FINANCIAL AND OPERATING REVIEW

(Canadian dollars)

FINANCIAL	1968	1967	1966	1965	1964
Sales					
Oil	$ 1,410,049	$ 1,165,022	$ 617,754	$ 420,511	$ 375,148
Natural gas	594,326	414,638	448,035	393,434	272,775
Natural gas liquids	271,740	245,844	246,570	163,302	83,425
Sulphur	457,803	480,825	337,978	242,487	77,686
Diesel	206,120	—	—	—	—
Cash income	1,611,542	1,115,244	853,313	617,076	168,734
Per share	31.4¢	24.4¢	18.8¢	14.5¢	4.6¢
Net income	1,049,908	731,588	638,734	448,028	(33,920)
Per share	20.4¢	16.0¢	14.1¢	10.5¢	(.9¢)
Working capital	973,726	1,878,673	1,858,041	(434,018)	(123,682)
Capital expenditures	3,127,670	3,688,114	3,777,884	2,086,921	1,529,867
Net assets before long term debt and deferred credit	16,976,926	15,122,226	12,577,095	7,846,098	6,216,679
Shareholders' equity	15,872,471	7,965,915	7,154,157	4,575,077	3,105,315
Per share	$2.98	$1.74	$1.58	$1.08	$0.86
Number of shares outstanding	5,330,759	4,569,222	4,533,722	4,248,061	3,630,101
Number of shareholders	6,654	5,804	6,149	5,779	5,158
PRODUCTION					
Oil (bbls.)	603,218	528,705	285,144	194,722	179,031
per day	1,652	1,449	781	533	490
Natural gas (mmcf.)	3,595	2,460	2,745	2,298	1,718
per day (mcf.)	9,849	6,740	7,521	6,295	4,706
Natural gas liquids (bbls.)	103,641	99,388	112,929	61,856	31,327
Sulphur (long tons)	16,158	13,923	13,119	13,628	6,768
AVERAGE SELLING PRICE					
Oil (per bbl.)	$2.34	$2.20	$2.17	$2.16	$2.10
Natural gas (per mcf.)	16.5¢	16.8¢	16.3¢	17.1¢	15.9¢
Natural gas liquids (per bbl.)	$2.62	$2.47	$2.18	$2.64	$2.66
Sulphur (per long ton)	$28.33	$34.53	$25.76	$17.79	$11.48
AVERAGE OIL PRODUCTION EXPENSES					
(per bbl.)	31¢	33¢	60¢	82¢	79¢
RESERVES					
Oil (bbls.)	29,154,721	27,585,903	28,545,449	8,008,612	4,934,297
Natural gas (mmcf.)	120,527	118,533	113,627	104,480	104,501
Natural gas liquids (bbls.)	4,276,725	4,386,836	5,108,014	2,596,674	1,963,898
Sulphur (long tons)	511,580	505,775	465,041	441,642	444,894
LAND					
Reservations and Permits					
Gross acres	10,388,766	5,907,077	4,167,378	2,948,211	284,257
Net acres	2,289,601	1,058,402	696,319	756,311	45,693
Leases					
Gross acres	1,168,837	1,129,547	926,037	897,484	905,737
Net acres	193,597	256,157	223,264	218,601	219,354
WELLS DRILLED					
Oil – gross	5.0	13.0	33.0	23.0	11.0
– net	0.4	0.8	1.9	2.0	3.5
Gas – gross	16.0	20.0	11.0	7.0	3.0
– net	0.8	1.5	0.4	0.3	0.4
Abandoned – gross	19.0	14.0	11.0	19.0	15.0
– net	2.4	1.7	1.1	3.3	5.6
NUMBER OF EMPLOYEES	252	249	191	89	35

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